KEG RESTAURANTS LTD

REPORT TO THE SHAREHOLDERS

by

G.M. TIDBALL

The purpose of this Report to the Shareholders is to provide an insight into the specific strategies being pursued by Keg Senior Management in 1986. The loss situation in 1984, the continuation of this loss in 1985, and a significant further writedown in non-restaurant assets has dictated the need for a clear-cut understanding of where the Keg is now and where it is going. The emphasis in this report is on the problems that are apparent. We must not, however, lose sight of the fact that significant opportunities do exist and that part of our strategy is to put the Keg in a position to renew its search for profitable opportunities to grow.

This strategy was developed by Brad and me. As most are aware, Brad was brought into the corporate office in 1985 as Senior Vice President and was named the President and Chief Operating Officer in March of 1986. The strategy reflects a consistent view-point between Brad and myself and it relates to action that is being taken now. It was developed by assessing the following:

- The Keg System;
- Restaurant Performance;
- Our Cost of Doing Business;
- Non-restaurants Related Activities;
- Financial Limitations.

The balance of this report will provide the highlights of this assessment.

The System

There is no question that a need exists to provide a sense of direction to all of our people in The Keg at all levels. There is a continuous need to re-define our attitudes relative to our staff and their interaction with the customers. There is a continuous need to update our menus, particularly as it relates to the non-dining use of The Keg. And finally, there is a continuous need to update our design and decor criteria. Moreover, this need is also relative to the offshoots we have within the Keg, namely the Boathouse and Caesars concepts. These needs exist now as they have always existed. There is no such thing as a static system and the continuing upgrading of the total system will continue. This does not mean, however, that the system itself is in jeopardy. 1985 sales on a comparable unit basis were equal to or exceeded those in 1984. Moreover, an assessment completed by an outside consulting firm reinforced the basic soundness of The Keg system. Accordingly, while this updating is a priority it is not considered a weakness.

There is, however, a much greater need to communicate a single, clear message to our customers. Our advertising and marketing in the past year and a half has been sporadic and we have not made the proper use of the marketing muscle that exists across the country. In 1985 roughly $3,ØØØ,ØØØ was spent in marketing at the restaurant level and yet our awareness levels in general were lower in 1985 than they were in 1983. Obviously, top-of-the-mind awareness eventually translates into volume trends. Additionally, focus group research indicated a confusion in terms of what it is we are trying to communicate. An obvious priority is for the creative to clearly depict our positioning and then use our marketing muscle properly. Increased awareness will translate into increased volumes.

Restaurant Performance

The ultimate validity of the Keg system lies in the ability of the restaurants to achieve profitable results. As was noted, the Keg share of income from restaurants has declined from $606,000 in 1983 to a loss of $173,000 in 1984 and a loss of $577,000 in 1985. The major problem still rests with the Ontario Region and the conversion of Crock and Blocks and Corkscrews to the Keg concept. The Ontario Region accounted for 66% of the losses incurred in restaurants in 1985. While other regions of the Keg do have some unprofitable restaurants, they are offset by profitable restaurants. Areas such as British Columbia, Alberta, Saskatchewan and the U.S. basically carry themselves and improved operating performance in these markets is a regional rather than a corporate priority.

The Ontario market, on the other hand, has been a major drain on the restaurant system. In 1985 only nine of the 28 Ontario restaurants reported a pre-tax profit and only three of the 19 newly acquired restaurants were profitable. While this is a relatively bleak outlook, 1985 was better than 1984 and the 4th Quarter of 1985 showed a significant improvement over the 4th Quarter of 1984. Certainly, the trend is positive, nevertheless, the priority for management action is extremely clear. These restaurants must become profitable.

In addition, margins have declined throughout all regions of the company. Controllable operating profit which is the key indicator declined significantly since 1983.

	1983	1984	1985
British Columbia	32.3%	31.1%	29.5%
Alberta	34.6%	33.2%	30.2%
Ontario	33.5%	32.2%	32.9%

This decline in margins has had a considerable impact on overall restaurant performance. It resulted from the fact that menu offerings and pricing has not kept up to date - a direct result of management attention being focused on the acquisitions and their conversions. A key priority was established in late 1985 to reverse this trend. A new menu was introduced on a test basis in the fall of 1985 and this is now being rolled out to the majority of restaurants in B.C. and Ontario. The net result has been an overall improvement in margins of some 3%.

A desirable overall target would be to have no loss stores in the entire mix. This, of course, is probably not realistic. On the other hand, when 12 losing operations account for losses of $1,800,000 then we know that this is not satisfactory. Our priority in 1986 (which will be based on an assessment of each restaurant in terms of its location, volume trends and management, and its ability to become profitable) will be to significantly impact these loss restaurants. Of the 12 selected for continuing review it may even become necessary to take the ultimate in drastic action, i.e. closure to achieve our target.

The key to our overall performance lies in our ability to deal with these problem restaurants and this is my No. 1 priority.

The Cost of Doing Business

Our "Cost of Doing Business" includes: the cost of maintaining the franchise system; the cost of providing regional support relative to our investment in restaurants; and the cost of corporate administration.

In total, these costs escalated from $4,200,000 in 1983 to $5,800,000 in 1984 and were at $5,400,000 in 1985. These costs exceed our total service fee income. A complete assessment was made of all of the "Costs of Doing Business" and a key priority was to not only reduce the costs but to make them more effective.

Corporate support for the franchise system was reduced from $1,629,000 in 1984 to $1,560,000 in 1985. Further reductions have now been made wherein the total now being incurred is at $1,300,000 on an annualized basis.

The costs of regional services declined from $1,504,000 in 1984 to $724,000 in 1985. A considerable portion of this reduction reflects the consolidation of Eastern Canada and Brad Bond's move to the corporate office. Further reductions have now been made wherein these regional services are now at an annualized rate of $389,000.

Corporate administration escalated from $1,805,000 in 1983 to $2,668,000 in 1984 and declined only marginally to $2,654,000 in 1985. Based on a review of what our corporate administration should in fact provide and what can be realistically achieved, a key priority identified was to dramatically reduce these costs. What we did was to rationalize the accounting and finance into three entities, i.e.

- The Franchise Company
- The investments in restaurants;
- The investments in restaurant-related real estate.

This rationalization, coupled with simplifying the company's financial position has resulted in substantial staff reductions. At the present time, costs of corporate administration have been reduced on an annualized basis by over $1,000,000 to an annual rate of $1,600,000.

Obviously, ensuring that the dollars spent are effective is still a priority and there is still the opportunity to reduce our cost of doing business further - however, significant strides have been made in bringing these costs into line.

<u>Non-Restaurant Related Activities</u>

A further priority is to rid ourselves of all non-Keg restaurants related activities. In essence, there was the need to put the blinkers back on and to concentrate on doing what we know best - "Running Kegs." As a consequence, significant writedowns were made on all non-restaurant related assets. Furthermore, until such time as these assets are disposed of they will be treated as a separate entity. Don McConachie, who has had considerable background with The Keg, has been retained to dispose of these assets and will assume total responsibility until such time as this task is completed.

The key elements of Don's responsibility will include the disposal of the following assets: the Apex Ski Hill and related real estate; the Old Spaghetti Factory complex; all real estate that does not have a base within our Keg concept.

As was noted, provision has already been made for any losses that might be sustained in these dispositions.

Financial Limitations

Obviously, the current cash flow and the current loan structure has put the Keg in a highly constrained position. The current structure shows the following:

- The cost of debt has escalated from $758,000 in 1983 to $1,845,000 in 1984 to $2,306,000 in 1985.
- A working capital position that is highly constrained.
- An unused tax loss and Capital Cost Allowance position.

As a result it is necessary to rethink the alternatives that exist for securing the necessary funding and achieving a balance between our equity and debt position. The sale of non-restaurant related assets will assist in this need. In addition, the Keg's principal banker has been most supportive.

There is still, however, a need to establish a means to best finance the Keg's present position and to provide a venue for growth. While a number of alternatives are or have been considered, no one alternate has been specifically pinpointed to date. At the point when such an alternative has been precisely defined I will report it to you.

SUMMARY

Reductions in the cost of our doing business which is already in hand, will improve our position by over $2,000,000 on an annualized basis. Disposal of non-restaurant related assets will reduce our interest costs by some $300,000.

While these are significant changes, the key to achieving our targeted return on equity still lies with the improvement in return on investment in the restaurants and in the restaurant's capability of paying service fees.

Considerable progress has been made in this regard, but we are still a long way from achieving our desired results. Bringing it all in line will not be done overnight. I can report, however, that we have everything moving in the right direction and that this sense of direction will eventually produce the desired results.

GM Tidball

George M. Tidball
Chairman of the Board

AUDITORS' REPORT

To the Shareholders of Keg Restaurants Ltd.

We have examined the consolidated balance sheet of Keg Restaurants Ltd. as at December 31, 1985 and consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Thorne Riddell
Chartered Accountants

Vancouver, Canada
March 21, 1986

KEG RESTAURANTS LTD.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1985

ASSETS

	1985	1984
Current Assets		
Advances and accounts receivable		
Shareholders and their related companies	$ 131,946	$ 108,483
Restaurants	1,339,413	1,132,969
Other	26,871	307,414
Investments in assets held for disposal	1,736,011	2,717,429
Inventories	70,567	95,777
Current maturity of notes receivable	577,186	535,228
Prepaid expenses	164,361	39,478
	4,046,355	4,936,778
Notes Receivable, net of current maturity		
Shareholders and their related companies	40,000	60,000
Other	2,430,766	2,536,457
	2,470,766	2,596,457
Investments (Note 3)	24,550,716	27,991,416
Fixed Assets (Note 4)	217,118	244,235
Deferred Charges		
Deferred income tax	4,810,860	3,291,974
Other, net of accumulated amortization	1,016,915	571,691
	5,827,775	3,863,665
	$37,112,730	$39,632,551

LIABILITIES

Current Liabilities

	1985	1984
Bank indebtedness (Note 5)	$ 579,763	$ 2,114,837
Accounts payable and accrued liabilities	2,151,735	1,643,864
Current maturity of long term debt (Note 6)	1,381,139	5,890,050
Unearned revenue	47,436	38,180
	4,160,073	9,686,931
Long Term Debt, net of current maturity (Note 6)	19,765,964	10,742,619

SHAREHOLDERS' EQUITY

	1985	1984
Capital Stock (Note 7)	18,874,616	18,504,509
Retained Earnings (Deficit)	(1,966,933)	3,870,569
	16,907,683	22,375,078
Deduct Cost of Shares owned by the Company (Note 7)	3,720,990	3,172,077
	13,186,693	19,203,001
	$37,112,730	$39,632,551

Contingency and future operations (Note 3 & 8)

Commitments (Note 9)

Approved by the Directors:

Director:

Director:

KEG RESTAURANTS LTD.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1985

	1985	1984
SALES		
Total Restaurant Sales	$178,924,928	$193,660,873
Less: Disposal Stores' Sales	30,539,623	43,291,216
System Sales	$148,385,305	$150,369,657
RESTAURANT-RELATED INCOME		
Licensing Operations		
Service Fees	$ 5,008,790	$ 5,554,739
Gain on sale of joint venture interests	424,054	373,905
	5,432,844	$ 5,928,644
Corporate and regional support expenses	2,727,077	3,165,399
	2,705,767	$ 2,763,245
Income (loss) from restaurant-related investments	(990,404)	623,480
Total restaurant-related income	1,715,363	3,386,725
OTHER INCOME (EXPENSE)		
Gain on sale of investments	8,003	804,732
Loss in value of restaurant investments (note 13)	(692,793)	(1,734,193)
Other	(165,271)	397,325
	865,302	2,854,489
Less: Corporate administration	2,654,476	2,668,436
Interest including interest on long term debt of $1,912,660 (1984 - $1,609,258)	2,305,501	1,845,053
	4,959,977	4,513,489
Loss before income taxes and extraordinary items	(4,094,675)	$ (1,658,900)
Income tax benefit (Note 10)	(348,090)	(1,310,008)
Loss before extraordinary items	(3,746,585)	$ (348,892)
Extraordinary items (Note 14)	(1,838,756)	(1,523,771)
Loss for the year	$(5,585,341)	$ (1,872,663)
Earnings (loss) per common share and Class A non-voting share before extraordinary item (Note 12)	$ (0.54)	$ (0.05)
Earnings (loss) per common share and Class A non-voting share (Note 12)	$ (0.80)	$ (0.28)

KEG RESTAURANTS LTD.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1985

	1985	1984
Balance at beginning of year	$ 3,870,569	$ 6,635,229
Loss for the year	(5,585,341)	(1,872,663)
	(1,714,772)	4,762,566
Costs relating to the issue and reorganization of share capital, net of income tax benefit	-	(7,731)
Dividends	(252,161)	(884,266)
Balance at end of year	$(1,966,933)	$ 3,870,569

KEG RESTAURANTS LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
Sources of Cash:		
Cash used for continuing operations	$(1,287,952)	$ (200,332)
Cash generated from (used for) operating working capital		
Advances and accounts receivable	49,212	521,892
Inventories	(18,771)	202,968
Prepaid expenses	(73,588)	87,531
Accounts payable and accrued liabilities	537,017	424,736
Unearned revenue	9,256	(20,198)
Net cash generated from operations	(784,826)	1,016,597
Other sources of cash		
Reduction (Increase) in shareholder's loans	(32,608)	316,847
Increase in long term debt	11,414,422	1,335,459
Issue of capital stock, net of issue cost	-	859,525
Decrease in notes receivable	505,944	381,750
Net proceeds from sale of investments	997,180	3,734,271
Employee stock purchase plan	71,300	475,700
Conversion of warrants	2,000	86,300
Cash available for financing and investing activities	12,173,412	8,206,449
Uses of cash:		
Cash committed to financing activities		
Decrease in long term debt	8,756,227	1,450,054
Repurchase of shares	-	-
Cash dividends	(6,652)	582,029
Increase in notes receivable	846,260	828,443
Cash invested in future operations		
Investments including acquisitions	504,227	6,450,101
Deferred charges	525,396	13,876
Fixed assets	12,880	98,137
Cash used for financing and investing activities	10,638,338	9,422,640
Increase (Decrease) in bank indebtedness	(1,535,074)	1,216,191
Bank indebtedness at beginning of year	2,114,837	898,646
Bank indebtedness at end of year	$ 579,763	$ 2,114,837

Year ended December 31, 1985

1. Significant Accounting Policies

(a) Investments

The company's investments consist of investments in continuing and disposal restaurants, business facility leases, restaurant real estate and non-restaurant real estate. The methods of accounting for these investments are as follows:

(i) Continuing restaurants, business facility leases and restaurant real estate.
In order to provide more consistent and meaningful information the Company accounts for its investment in both subsidiaries and joint ventures (both incorporated and unincorporated) on the equity method. Accordingly these investments are included in the consolidated balance sheet as investments accounted for on the equity method and the Company's share of the net income is included in income from restaurant-related investments on the consolidated statement of income.

(ii) Disposal restaurants and non-restaurant real estate.
The same accounting policy is followed for these investments as for those investments described in note 1(a)(i) except that the Company's share of income is included in other income on the consolidated statement of income.

(b) Inventories

Inventories are stated at the lower of average or replacement cost and net realizable value.

(c) Investments in assets held for disposal

The Company's investment in assets held for disposal are stated at the lower of cost and net proceeds expected to be realized by the Company during the next twelve months on the sale of certain restaurants owned by a subsidiary and non-restaurant real estate held for resale.

(d) Restaurant Operations

Where the Company has acquired restaurant operations, the purchase pric is allocated firstly to tangible assets with any balance attributed to goodwill. Equipment and furnishings are depreciated over a ten-year period with leasehold improvements and goodwill being amortized on a straight-line basis over the terms of the leases plus renewal options, to a maximum of twenty years.

Certain costs incurred by restaurants prior to opening are deferred anc amortized on a straight-line basis over a five-year period from the date of commencement of operations. These costs would include advertising, trainin and site investigation.

Costs incurred by new concept restaurants during the first year of establishing the new concept are deferred and amortized on a straight-line basis over five years or are charged to income of the period in which it is determined that there will not be sufficient recovery from future operations. These costs include market development and operating losses.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is calculated on a straight-line basis over twenty years for buildings and over ten years for equipment and furnishings. Leasehold improvements are amortized on a straight-line basis over the terms of the leases plus renewal options, to a maximum of twenty years.

(f) Translation of foreign currencies

Monetary assets and liabilities of the Company's U.S. subsidiary are translated at the year end rate of exchange. Non-monetary assets and liabilities are translated at the average exchange rate during the year of acquisition. Income accounts are translated at the average exchange rate for the year. Gains and losses resulting from these translation policies are recorded in the consolidated statement of income.

2. Related Party Transactions

The following related party transactions and balances are recorded in the accounts:

a) Advances and notes receivable from shareholders and their related companies.

The advances are non-interest bearing and have no fixed terms of repayment. The notes receivable are non-interest bearing and consist of a loan of $60,000, repayable in annual instalments of $20,000.

b) Service and licence fees earned;

	Service Fees	Licence Fees
Joint ventures	$1,893,772	$ 8,793
Wholly owned restaurants	2,400,866	1,250
Franchises	714,152	0
	$5,008,790	$10,043

During the year a wholly-owned subsidiary of the Company formed a partnership with a former officer to own and operate existing and future restaurants in the United States. As part of the transaction, another wholly-owned subsidiary of the Company purchased 123,300 Class A Non-Voting shares of the Company from the former officer for $525,000. The former officer had originally acquired the Class A Non-voting shares in 1984 in exchange for his interest in certain Vancouver area restaurants. The result of these transactions was that the former officer exchanged his interest in the Vancouver restaurants for an interest in the U.S. partnership.

3. Investments

Investments comprise:

	1985	1984
Continuing restaurant related investments, at equity		
Restaurants (joint venture and wholly-owned)	$16,042,971	$16,696,457
Business facility leases	2,323,968	4,607,034
Restaurant real estate	2,551,191	3,066,256
	20,918,130	24,369,747
Non restaurant real estate, at equity	2,341,216	3,069,386
Other investments, at equity	1,291,370	552,283
	$24,550,716	$27,991,416

Business facility leases are the fixed assets of one or more restaurants owned by the Company, subsidiaries of the Company or incorporated joint ventures. These assets are leased to separate operating entities in exchange for a percentage of sales.

Income from investments consists of:

Restaurant-related investments:	1985	1984
Restaurant operations	$ (629,704)	$ 487,273
Business facility leases	(312,702)	38,156
Restaurant real estate	(47,998)	98,051
	$ (990,404)	$ 623,480

The following condensed financial information is provided for wholly-owned subsidiaries which have been accounted for using the equity method.

Total assets	$38,551,039
Total liabilities	$23,596,408
Equity in net assets, being carrying value	14,954,631
	$38,551,039

The assets, liabilities, revenues and expenses of joint venture restaurants considered significant are reported or disclosed as appropriate.

The company is contingently liable in respect of joint venture and subsidiary borrowings as follows:

(i) as guarantor of restaurant loans to the extent of $5,721,466, and
(ii) as a party to the loan agreement relating to the Old Spaghetti Factory joint venture companies to the extent of $2,741,044. The loan agreement provides for an early maturity bonus payment of $199,330 which will be payable in 1988.
(iii) as guarantor of real estate loans to the extent of $3,496,676.
(iv) as guarantor of business facility leases to the extent of $8,646,327.

4. Fixed Assets

	1985	1984
Land and buildings	$ 138,219	$ 138,219
Leasehold improvements	29,691	15,115
Equipment and furnishings	226,874	228,570
	394,784	381,904
Less: accumulated depreciation and amortization	177,666	137,669
	$ 217,118	$ 244,235

5. Bank Indebtedness

Bank indebtedness is secured by a general assignment of book debts, a fixed and floating charge demand debenture, and a fixed charge on certain real estate.

6. Long Term Debt

Long term debt comprises:	1985	1984
Debentures	$ 8,000,000	$ 8,295,841
Mortgage	-	528,000
Term bank loan	9,003,678	5,277,246
Promissory notes	4,113,172	2,247,659
Agreements	30,253	283,923
	$21,147,103	$16,632,669
Current maturity	1,381,139	5,890,050
	$19,765,964	$10,742,619

(a) Debentures

The $8,000,000 represents a series of 11% convertible, subordinated debentures. These debentures are convertible into Class A non-voting shares at a conversion price of $6 per share until July 29, 1988 and at $6.50 per share thereafter until maturity. The Company, at its option, at any time after July 29, 1988, may redeem these debentures at premiums ranging from 10% in the year ended July 29, 1989 reducing at 2 1/2% per annum to maturity date at July 29, 1993. These debentures are unsecured and subordinate to all indebtedness of the company other than indebtedness or liability to creditors for accounts payable in the ordinary course of business.

(b) Term bank loans

These loans are payable on demand, and bear interest at prime plus 1% to 2% and are secured by a general assignment of book debts, a fixed and floating charge demand debenture and a fixed charge on certain real estate. These loans are being repaid by monthly installments of $6,322 until June 1986 increasing to $77,869 per month thereafter.

(c) Promissory notes

These notes bear interest at rates from 10% to prime rate plus 2% and mature at various dates to 1987. One of these notes is secured by land and a building located in Montreal, Quebec.

(d) Principal repayments

Excluding debentures, the minimum principal payments on long term debt for the next five years are as follows:	1986	$1,381,139
	1987	2,777,189
	1988	1,295,883
	1989	1,203,319
	1990	1,203,319

7. Capital Stock

The Company's issued capital stock comprises:

	1985	1984
858,763 common shares (1984; 858,863)	$ 496,876	$ 487,702
7,186,836 class A non-voting shares (1984; 7,102,653)	18,377,740	18,016,807
	$18,874,616	$18,504,509

The common share and class A non-voting share transactions during 1985 were as follows:

Common Shares	Number of Shares	Amount
Balance December 31, 1984	858,863	$ 487,702
Payments received under the employee stock purchase plan	-	9,350
Converted to Class A non-voting	(100)	(176)
	858,763	$ 496,876
Deduct shares owned by the Company	126,002	
	732,761	

Class A non-voting shares	Number of Shares	Amount
Balance December 31, 1984	7,102,653	$18,016,807
Issued		
Converted from common	100	176
Conversion of warrants	-	2,000
Stock dividend	84,083	306,947
Payments received under the employee stock purchase plan	-	51,810
	7,186,836	$18,377,740
Deduct shares owned by the Company	1,064,972	
	6,121,864	

The total amount now outstanding under the employee stock purchase plan is $453,660 and is repayable as follows:

1986 -	378,860
1987 -	37,400
1988 -	37,400
	$453,660

These notes are non-interest bearing and have been deducted from share capital for financial statement purposes. Payments are added to share capital as they are received.

8. Contingencies and Future Operations

The company has sustained significant losses in the current year primarily as a result of its investments in the real estate industry, unsuccessful new restaurant concepts and the temporary ownership of unprofitable restaurants.

The company has reassessed its involvement in such activities and has adopted, with the concurrence of its bankers, the following plan:

1. Critically assess the carrying value of all assets and provide for all likely impairment in value. As at December 31, 1985 asset carrying values have been reduced for all such impairments.

2. Restrict future investments to "Keg concept" restaurants.

3. Eliminate overheads and other costs associated with real estate and other activities unrelated to "Keg concept" restaurants.

4. Sell or close operations that do not show adequate profit potential in the immediate future.

5. Re-assess control over all other costs.

Investment in non-restaurant real estate and other investments are recorded as non-current investments as outlined in note 3.

As a result of the company's investment in certain real estate and other non-restaurant activities, the company has guaranteed indebtedness to the extent of $3,825,000 to a number of financial institutions. The company's guarantees have been called on $1,000,000 of this debt.

The company had discussions with financial institutions and has proposed plans whereby these debts will be settled in an orderly fashion. The company believes that these proposed plans, including a schedule of payments that can be met by the future operations of the company, will be accepted by these financial institutions. Adjustments, if any, arising on a settlement of these matters will be accounted for as prior period adjustments.

9. Commitments

The Company, its subsidiaries and joint ventures have lease commitments which expire in one to twenty-one years. The approximate aggregate annual rentals payable over the next five years on these leases, excluding additional payments based on sales, will be as follows:

1986	$5,245,972
1987	4,818,527
1988	4,589,947
1989	4,313,755
1990	3,826,160

10. Income Taxes

The income tax recovery of $348,090 differs from the result that would be obtained by applying the combined Canadian Federal and Provincial income tax rate of 52% to the loss before income taxes and extraordinary items. The difference results from the following items:

	Impact on Tax Benefit	% of loss before Income Taxes and Extraordinary Items
Computed "expected" tax recovery on loss before income taxes and extraordinary items of $4,094,675	$2,129,231	52%
Net non-taxable portion of capital gains of $260,736	(135,582)	(3.3%)
Investment income (loss) in the amount of ($1,593,764) reported after tax	(828,757)	(20.2%)
Rate differential on deferred income tax benefits realized	(816,802)	(20.0%)
	$ 348,090	8.5%

11. Regional Operations

The following table summarizes the Company's licensing income and income from continuing restaurant related investments on a regional basis:

	1985 (stated in $000's)					
	British Columbia	Alberta	Central	Eastern	United States	Total
SALES	$48,444	$16,351	$15,888	$55,110	$12,593	$148,385
Fees	$ 1,631	$ 692	$ 274	$ 2,127	$ 285	$ 5,009
Gain on sale of joint venture interests	11	16	93	124	181	425
Income from restaurant related investments	(142)	204	227	(956)	(323)	(990)
	$ 1,500	$ 912	$ 594	$ 1,295	$ 143	$ 4,444
	124	173	3	435	0	735
	$ 1,376	$ 739	$ 591	$ 860	$ 143	$ 3,709
Corporate support						$ 1,994
Total restaurant related income						1,715
Other income (expense)						(850)
						865
Less: Corporate administration						(2,654)
Interest						(2,306)
Loss before income taxes and extraordinary item						$ (4,095)
Investment carrying value	$ 3,080	$ 2,046	$ 956	$10,465	$1,820	$ 18,367

	1984 (stated in $000'S)					
	British Columbia	Alberta	Central	Eastern	United States	Total
SALES	$53,772	$19,854	$16,987	$53,846	$5,911	$150,370
Fees	$ 1,893	$ 870	$ 446	$ 2,144	$ 202	$ 5,555
Gain on sale of joint venture interests	68	102	24	160	20	374
Income from restaurant related investments	268	351	123	(258)	140	624
	$ 2,229	$ 1,323	$ 593	$ 2,046	$ 362	$ 6,553
Less: Regional support	417	107	9	849	0	1,382
	$ 1,812	$ 1,216	$ 584	$ 1,197	$ 362	$ 5,171
Corporate support						1,784
Total restaurant related income						3,387
Other income (expense)						(532)
						2,855
Less: Corporate administration						(2,669)
Interest						(1,845)
Loss before income taxes and extraordinary item						$ (1,659)
Investment carrying value	$ 3,765	$ 2,676	$ 1,004	$11,009	$3,344	$ 21,798

12. Earnings Per Share

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding. The weighted average number of common shares used to calculate the basic and fully diluted earnings per share has not been increased for the potential effects of conversion of convertible debt as this would decrease the calculated loss per share both before and after extraordinary items.

13. The Loss in Value at Restaurant Investments

The loss in value at restaurant investments:

Write-down of accounts and notes receivable	$272,370
Write-down of restaurant investments	
- Las Margaritas	144,480
- Kelowna Keg	37,685
- Keg U.S.	305,854
- Other	77,095
	837,484
Less: Deferred tax recovery on above items	144,691
	$692,793

14. Extraordinary Items

The extraordinary items consist of the loss in value of certain non-restaurant related investments and a loss in the value of the remaining investment in an abandoned restaurant concept. These losses were as follows:

Apex alpine and related real-estate investments	$1,101,948
Roosevelt Hotel project	227,778
Other real estate investments	368,526
Richmond and Delta chicken concept losses	894,229
Other	80,363
	$2,672,844
Less: Deferred tax recovery on above items	834,088
Net extraordinary loss	$1,838,756

15. Comparative Figures

Certain 1984 financial statement items have been reclassified to conform with the presentation adopted for 1985.

Directors	David Aisenstat, Executive Vice President, Hy's of Canada David W. Betts, President, Betts Electric Ltd. J.W. Bradley Bond, Executive Vice President, Keg Restaurants Ltd. Harold P. Capozzi, President, Capozzi Enterprises Ltd. Arthur H. Crockett, corporate Director and Financial Consultant Winton Derby, Senior Partner, Shrum, Liddle & Hebenton Maxwell Goldhar, Chairman, Revenue Properties company Ltd. George M. Tidball, President, Keg Restaurants Ltd.
Officers	George M. Tidball, President and Chairman of the Board J.W. Bradley Bond, Executive Vice President Terry Thompson, Secretary and Treasurer Kurt Landert, Vice President, Food Services
Registrar and Transfer Agent	National Trust Company, Vancouver, B.C.
Auditors	Thorne Riddell, Chartered Accountants, Vancouver, B.C.
Solicitors	Shrum, Liddle & Hebenton, Vancouver, B.C.

KEG RESTAURANTS LTD.

226 - 4664 Lougheed Highway
Burnaby, British Columbia
V5C 4A4

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of Keg Restaurants Ltd. (the "Company") for 1985 will be held at the Burnaby "Keg" restaurant at 2656 Eastbrook Parkway, Burnaby, British Columbia on Monday, June 9, 1986 at 10:00 A.M., Vancouver time, for the following purposes:

1. To receive the report of the Directors to the Members;
2. To receive the Consolidated Financial Statements of the Company for the financial year ended December 31, 1985, and the Auditor's Report thereon;
3. To elect Directors for the ensuing year;
4. To appoint Auditors for the ensuing year and to authorize the Directors to fix the remuneration of the Auditors;
5. To consider and vote upon, with or without variation, a Resolution as set out in the Information Circular accompanying this Notice approving the Company granting stock options to specified persons; and
6. To transact such other business as may be properly brought before the meeting.

DATED at Burnaby, British Columbia, May 15, 1986.

By order of the Board of Directors

J.W. Brad Bond
President

IF YOU ARE UNABLE TO ATTEND THE MEETING, COMPLETE, SIGN AND RETURN THE ENCLOSED INSTRUMENT OF PROXY TO NATIONAL TRUST COMPANY, 666 BURRARD STREET, VANCOUVER, BRITISH COLUMBIA, V6C 2Z9. AN ENVELOPE IS ENCLOSED.

PROXIES TO BE USED AT THE ANNUAL GENERAL MEETING, OR ANY ADJOURNMENT THEREOF, SHOULD BE DELIVERED TO NATIONAL TRUST COMPANY NOT LATER THAN 9:00 A.M., VANCOUVER TIME, ON MONDAY, JUNE 9, 1986.

PLEASE ADVISE THE COMPANY OF ANY CHANGE IN YOUR ADDRESS.

KEG RESTAURANTS LTD.

INFORMATION CIRCULAR

MANAGEMENT SOLICITATION

This Information Circular is furnished in connection with the solicitation of proxies by the Management of Keg Restaurants Ltd. for use at the Annual General Meeting (the "Meeting") of the Company to be held on Monday, June 9, 1986 at 10:00 A.M., Vancouver time, at the Burnaby "Keg" restaurant at 2656 Eastbrook Parkway, Burnaby, British Columbia (and at any adjournments thereof). It is expected that the solicitation will be by mail. The cost of the solicitation will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXY

The persons named as proxyholders in the accompanying instrument of proxy are Directors of the Company. A MEMBER ENTITLED TO VOTE AT THE MEETING HAS THE RIGHT TO APPOINT A PERSON, WHO NEED NOT BE A MEMBER, TO ATTEND AND ACT FOR HIM ON HIS BEHALF AT THE MEETING OTHER THAN THE PERSONS DESIGNATED IN THE ACCOMPANYING INSTRUMENT OF PROXY. IF A MEMBER DOES NOT WANT TO APPOINT EITHER OF THOSE PERSONS DESIGNATED HE SHOULD STRIKE OUT THEIR NAMES AND INSERT IN THE BLANK SPACE PROVIDED THE NAME AND ADDRESS OF THE PERSON HE WISHES TO ACT AS HIS PROXY.

An instrument of proxy will not be valid unless it is dated and signed by the member who is giving it or by his attorney duly authorized by him in writing, or, in the case of a corporation, is dated and executed under its corporate seal or by any officer or officers of, or attorney for, the corporation duly authorized. If an instrument of proxy is executed by an attorney for an individual member or joint members or by an officer or officers or attorney for a corporate member not under its corporate seal, the instrument so empowering the officer or officers or attorney, as the case may be, or a notarial copy thereof, should accompany the instrument of proxy.

A member who has completed and delivered a proxy may revoke it by an instrument in writing executed by the member who has given it or, by his attorney authorized in writing or, where the member is a corporation, by a duly authorized officer, or attorney, of the corporation and delivering such instrument either to the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner provided by law.

VOTING OF SHARES REPRESENTED BY PROXY

The instrument of proxy accompanying this Information Circular confers discretionary authority upon the proxy or alternate proxy appointed by a member with respect to matters identified in the accompanying Notice of Annual General Meeting and instrument of proxy (and with respect to

amendments and variations thereto and other matters which may properly come before the Meeting).

If the instructions to the nominee contained in the instrument of proxy are certain, the shares represented by such instrument of proxy will be voted on any poll and, with respect to any matter to be acted upon where the member specifies a choice, in accordance with the specification so made. IF NO SPECIFICATION IS MADE IN THE INSTRUMENT OF PROXY WITH RESPECT TO ANY MATTER SET OUT THEREIN THE SHARES REPRESENTED BY SUCH PROXY WILL BE VOTED IN FAVOUR OF THE ITEM FOR WHICH NO SPECIFICATION IS MADE.

SHARE CAPITAL AND PRINCIPAL HOLDERS THEREOF

The authorized share capital of the Company consists of 30,000,000 shares without par value divided into 15,000,000 Common Shares and 15,000,000 Class A Non-Voting Shares.

The holders of Class A Non-Voting Shares do not have the right to vote at meetings of members of the Company except in connection with certain matters specified by the Company Act, British Columbia, or provided in the Articles of the Company. These matters at present include: (i) the sale of all or substantially all the assets of the Company; (ii) the liquidation of the Company; (iii) the amalgamation of the Company; and (iv) any alteration of the capital of the Company which will interfere with the rights and restrictions attached to the Class A Non-Voting Shares.

The Class A Non-Voting Shares are convertible into fully paid and non-assessable Common Shares as the same shall be constituted at the time of such conversion, on the basis of one Common Share for each Class A Non-Voting Share in respect of which the conversion right is exercised, if an offer is made to purchase all or substantially all of the issued Common Shares, unless:

(i) an offer on the same terms and conditions is made at the same time to purchase the Class A Non-Voting Shares;

(ii) a notice is given by or on behalf of the holders of not less than 50% of the Common Shares at least seven days prior to the expiry of the offer stating that they will not accept the offer; or

(iii) the Directors of the Company determine at least seven days prior to the expiry of the offer that the offer is not bona fide but is made for the purpose of causing the conversion right to come into effect.

At the date hereof the Company has outstanding 858,763 Common Shares without par value of which 126,035 shares are not eligible to be voted as they are held by the Company or a subsidiary. There are therefore 732,728 Common Shares entitled to be voted at the Meeting, each share carrying the right to one vote. The holders of Common Shares of record at the close of business on May 15, 1986 will be entitled to vote (in person or by proxy) at the Meeting. In addition, the Company has outstanding 7,186,836 Class A Non-Voting Shares. The Class A Non-Voting Shares do not carry the right to

vote at the Meeting with respect to the matters set out in the accompanying Notice of Annual General Meeting.

The Directors and senior officers of the Company are not aware of any person or company who beneficially owns, directly or indirectly, shares in the capital of the Company carrying more than 10% of the voting rights attached to all shares of the Company entitled to be voted at the Meeting other than Westward Recreational Developments Ltd., an associate of Mr. George M. Tidball, Chairman of the Board and a Director of the Company, and Hy's of Canada Ltd., an associate of Mr. David Aisenstat, a Director of the Company. Westward Recreational Developments Ltd. is the owner of 245,061 Common Shares representing 33.45% of the shares entitled to be voted at the Meeting. Hy's of Canada Ltd. is the owner of 145,268 Common Shares representing 19.83% of the shares entitled to be voted at the Meeting.

ELECTION OF DIRECTORS

Management of the Company proposes to nominate each of the following persons for election as a Director to serve until the next Annual General Meeting of Members or until he sooner ceases to hold office. Each is presently a Director of the Company and is ordinarily resident in Canada.

Name	Director Since	Principal Occupation	Common Shares Beneficially Owned
George Murray Tidball	1972	Chairman of the Board of Directors of the Company	nil*
Harold Peter Capozzi	1972	Vice-President, Capozzi Enterprises Ltd. (a property management company)	9,796
Maxwell Goldhar	1976	Chairman of the Board, Revenue Properties Company Limited (a real estate development company) and Chairman of the Board, Carlyle Energy Ltd. (an oil and gas company)	nil
David Aisenstat	1983	Director and Executive Vice-President, Hy's of Canada Ltd. (a restaurant company)	nil**
James William Bradley Bond	1983	President of the Company	nil

* Westward Recreational Developments Ltd., an associate of Mr. Tidball, owns 245,061 Common Shares.

** Hy's of Canada Ltd., an associate of Mr. Aisenstat, owns 145,268 Common Shares.

Advance notice of the Meeting inviting nominations for directors of the Company was published in The Vancouver Sun newspaper on April 11, 1986.

REMUNERATION OF MANAGEMENT AND OTHERS

The aggregate direct remuneration paid or payable by the Company and its subsidiaries, whose financial statements are consolidated with those of the Company, to the Directors and senior officers of the Company in the last completed financial year of the Company was $898,973.

PARTICULARS OF INDEBTEDNESS TO THE COMPANY OF DIRECTORS AND SENIOR OFFICERS

Westward Recreational Developments Ltd. ("Westward") an associate of Mr. Tidball, Chairman and a Director of the Company, was indebted to the Company in the amount of $193,201 as at March 31, 1986. This amount is owing by Westward in connection with advances, without interest, made from time to time since the beginning of the last completed financial year of the Company, and during prior financial years, in consideration of services and other benefits provided from time to time by Mr. Tidball and represents the largest amount owing to the Company by Westward since the beginning of the last completed financial year of the Company.

Capozzi Enterprises Ltd., an associate of Mr. H.P. Capozzi, a Director of the Company, was indebted to the Company in the amount of $50,000 as at April 30, 1986. The largest amount owing to the Company by Capozzi Enterprises Ltd. since the beginning of the last completed financial year of the Company was $60,000. This indebtedness arose in 1985, is owing in connection with the Company's assumption of all of the liabilities of Kelowna Spaghetti Corp., a company which formerly owned and operated a restaurant in Kelowna, British Columbia in which the Company and Capozzi Enterprises Ltd. held equal interests, and does not bear interest.

Arbutus Capital Corporation (formerly L.B.B. Management Ltd.), an associate of Mr. L. Bruce Benda, formerly a Vice-President of the Company, was indebted to the Company in the amount of $38,000 as at April 30, 1986. The largest amount owing to the Company by Arbutus Capital Corporation since the beginning of the last completed financial year of the Company was $40,000. This amount is owing by Arbutus Capital Corporation in connection with an advance, without interest, to assist Mr. Benda to purchase a home for his own occupation.

The following corporations, which are associates of Mr. Wayne Holm, formerly Senior Vice-President, Corporate Support Services, are indebted to Keg Restaurants U.S., Inc. In each case the indebtedness arose in connection with the acquisition by the following corporations of assets used in the operation of restaurants previously owned and operated by Keg Restaurants U.S., Inc. or the Company:

	Indebtedness as at March 31, 1986	Largest Amount of Indebtedness since January 1, 1985
Tacoma Great Steak House Ltd.	$74,669	$74,669
Aurora Great Steak House Ltd.	$25,369	$25,369

Various corporations which are, or were at some time during the last completed financial year of the Company, associates of certain Directors and a former senior officer of the Company, and in which the Company is a shareholder, are indebted to the Company. In each case the indebtedness represents advances, without interest, made by the Company as a shareholder, to enable the respective company to meet operating expenses. Particulars of this indebtedness are as follows:

	Associate of	Indebtedness as at December 31, 1985	Largest Amount of Indebtedness since January 1, 1985
Apex Alpine Recreations Ltd.	David W. Betts, Director and Harold P. Capozzi, Director	$1,540,321	$1,540,321
Goldengreen Management Company, Inc.	Harold P. Capozzi, Director	$ 781,507	$ 870,966
Keg Realty Ltd.	L. Bruce Benda, formerly Vice-President	$ 380,464	$ 513,010
Nectar Holdings Ltd.	L. Bruce Benda, formerly Vice-President	$ 236,808	$ 236,808

The following corporations, which are associates of certain Directors or a former senior officer of the Company, are indebted to the Company. In each case the indebtedness represents advances, without interest, to a joint venture in which the Company and the following corporations are, directly or indirectly a party or partner, in excess of the Company's pro-rata share of funds required by the joint ventures to meet operating expenses:

	Associate of	Indebtedness as at March 31, 1986	Largest Amount of Indebtedness since January 1, 1985
L.B.B. Investments Ltd.	L. Bruce Benda, formerly Vice-President	11,319.47	11,319.47
Capozzi Enterprises Ltd.	H.P. Capozzi, Director	13,384.59	23,004.30

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Wayne Holm Enterprises Ltd. and Seattle Reorganization

During 1984 the Company agreed to acquire shares of Wayne Holm Enterprises Ltd., an associate of Mr. Wayne Holm, of 9424 North East 18th, Bellevue, Washington 98004, formerly Senior Vice-President, Corporate Support Services, for a consideration of $975 cash and 123,300 Class A Non-Voting Shares of the Company having an assigned value of $524,025. Wayne Holm Enterprises Ltd. indirectly owns shares in various companies which own and operate "Keg" restaurants in British Columbia. This transaction was completed during the last completed financial year of the Company. Further, the Company and Mr. Holm entered into agreements whereby Mr. Holm and Keg Restaurants U.S., Inc., a wholly owned subsidiary of the Company, formed a partnership to own and operate existing and future restaurants in the State of Washington in the United States, with a right of first refusal for the States of Oregon and California. The interest of the Company and Keg Restaurants U.S., Inc. in six restaurants in Washington was transferred to companies in which the partnership has the majority interest. As part of these transactions, Controlled Foods Corporation Limited, a wholly owned subsidiary of the Company, agreed to purchase the Class A Non-Voting Shares acquired by Mr. Holm pursuant to the 1984 agreements at the same price those shares were issued to Mr. Holm.

Apex Alpine Recreations Ltd.

In October, 1985 the Company and an unrelated party entered into an agreement with Capozzi Enterprises Ltd., an associate of Mr. H.P. Capozzi, of 500 - 673 Market Hill, Vancouver, British Columbia, a Director of the Company, pursuant to which the Company and the unrelated party agreed to purchase, each as to a one-half interest, all shares in Apex Alpine Recreations Ltd., a company in which the Company is a shareholder, and all shareholders' loans made by Capozzi Enterprises Ltd. to Apex Alpine Recreations Ltd. for $1.00. The Company and the unrelated party agreed to obtain or deliver the release of institutional lenders to Apex Alpine Recreations Ltd. of guarantees given by Capozzi Enterprises Ltd. securing indebtedness of Apex Alpine Recreations Ltd.

Also in October, 1985 the Company and the unrelated party referred to in the previous paragraph entered into an agreement with Betts Holdings Ltd., an associate of Mr. D.W. Betts, of 919 May Street, R.R. 2, Summerland, British Columbia, a Director of the Company, pursuant to which the Company and the

unrelated party agreed to purchase, each as to a one-half interest, all shares in Apex Alpine Recreations Ltd. and all shareholders' loans made by Betts Holdings Ltd. to Apex Alpine Recreations Ltd. for $1.00 plus an amount equal to such shareholders' loans, up to a maximum of $382,351, payable only to the extent that funds are realized from the sale of assets of Apex Alpine Recreations Ltd. The Company and the unrelated party agreed to obtain or deliver the release of institutional lenders to Apex Alpine Recreational Developments Ltd. of guarantees given by Betts Holdings Ltd. securing indebtedness of Apex Alpine Recreations Ltd.

Management Agreement with Barrier Management Inc.

Effective May 13, 1985 the Company entered into a management agreement with Barrier Management Inc., an associate of Mr. J.W. Brad Bond, of 7062 Cypress Drive, Vancouver, British Columbia, President and a Director of the Company, pursuant to which Barrier Management Inc. agrees to provide certain services to the Company, including providing the services of Mr. Bond, and the Company agrees to pay Barrier Management Inc. a fee set out in the agreement and agrees to grant Barrier Management Inc. options to purchase an aggregate of 150,000 Class A Non-Voting Shares in the Company.

Bruce Schmidt Employee Stock Purchase Plan Shares

In January, 1985 the Company agreed to purchase from Mr. Bruce Schmidt of 202 Queens Avenue, New Westminster, British Columbia, formerly Vice-President, Marketing of the Company, 16,000 Class A Non-Voting Shares of the Company held by him pursuant to the Company employee stock purchase plan, for a price equal to $59,840, being the unpaid balance owing by Mr. Schmidt in respect thereof.

APPOINTMENT OF AUDITORS

Unless otherwise instructed by a member, the persons named in the enclosed instrument of proxy will vote for the re-appointment of Thorne Riddell, Chartered Accountants, Vancouver, British Columbia, as auditors for the Company to hold office until the next Annual General Meeting of Members, and, as required by the Company Act (British Columbia) to authorize the Directors of the Company to fix their remuneration. As in the past, it is proposed that the remuneration to be paid to the auditors be fixed by negotiation between the Directors and auditors based upon the work performed in connection with the audit.

STOCK OPTIONS

At a meeting of the Directors of the Company held on February 11, 1986 it was resolved to:

(i) grant to Barrier Management Inc., an associate of Mr. J.W.B. Bond, President and a Director of the Company, which corporation provides management services to the Company, including providing the services of Mr. Bond as senior officer of the Company, an option to purchase up to a total of 150,000 Class A Non-Voting Shares in the Company; and

(ii) grant to Westward Recreational Developments Ltd., an associate of Mr. G.M. Tidball, Chairman and a Director of the Company, which company provides management services to the Company, including providing the services of Mr. Tidball as a senior officer of the Company, an option to purchase up to a total of 243,000 Class A Non-Voting Shares in the Company.

The provisions of the above mentioned options and the exercise of the rights granted were expressed to be subject to the approvals of the Vancouver Stock Exchange, The Toronto Stock Exchange and the members of the Company. Both options are exercisable for a period of three years commencing on the date the members of the Company approve of the grant of the options. The exercise price for both options is \$2.55, being the closing price of the Class A Non-Voting Shares of the Company on the last trading day immediately preceding the day on which the Directors granted the options, less the discount therefrom permitted under the rules, regulations and policies of The Toronto Stock Exchange and the Vancouver Stock Exchange. The price of the Class A Non-Voting Shares of the Company in the 30 day period preceding February 11, 1986 was between \$3.00 and \$3.15.

Pursuant to the rules, regulations and policies of applicable securities regulatory authorities and the Vancouver Stock Exchange and The Toronto Stock Exchange the issuance of any shares pursuant to the stock options authorized must be approved by the shareholders of the Company. The Resolution following, if approved, will approve the above mentioned options authorized by the Directors of the Company and approve the issuance of shares pursuant to any exercise of such options:

> "RESOLVED that the options granted by the Company to Barrier Management Inc. and Westward Recreational Developments Ltd. to purchase Class A Non-Voting Shares in the Company as described in the Information Circular of the Company dated May 15, 1986 and the issuance of Class A Non-Voting Shares of the Company pursuant to any exercise of such options be approved."

AMENDMENTS AND VARIATIONS

Management of the Company is not aware of any amendments or variations to the matters identified in the Notice of the Annual General Meeting or of any other matters which may come before the Meeting. However, the accompanying instrument of proxy confers discretionary authority upon the persons named therein to vote on any amendments or variations or other matters which properly come before the Meeting in accordance with their best judgment.

DATED May 15, 1986

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